

**NAPIER ENVIRONMENTAL
TECHNOLOGIES INC.
CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2003
(UNAUDITED – Prepared by Management)**

MANAGEMENT'S DISCUSSION AND ANALYSIS FIRST QUARTER FISCAL 2003

The Management's Discussion and Analysis (MD&A) for this first fiscal quarter of 2003 should be read in conjunction with the interim consolidated financial statements for the three-month period ended March 31, 2003. The MD&A has been prepared to give shareholders an assessment of not only what the Company has accomplished in the past fiscal period but also of what management initiatives have been taken to increase shareholder value for the future.

Napier manufactures and distributes effective and environmentally advantaged chemicals for stripping paints/coatings as well as wood refurbishment products. These products are cost effective in labour savings, safe to use and environmentally benign. The world market for the Company's products in a wide range of industry sectors is very significant. Management expects shareholder value to increase due to this opportunity, based on improved results, and due to anticipated results from operations for the remainder of the year.

Results of Operations

A lagging US economy and a long, severe and lingering winter in North America hindered first quarter sales. Major customers are reluctant to replenish inventory until the last minute. In addition our largest "private label" customer with first quarter sales over \$280,000 last year, is restructuring its US operations and has delayed ordering this year. Ongoing concerns over terrorism and both the threat and action of an Iraq war negatively impacted aviation sector sales in the quarter and served to delay export sales in both Europe and to a lesser extent Australia. Quarter sales of \$1,527,000 compares to \$1,951,000 for the first quarter of last year, a 22% decrease. The Company was able to improve its gross profit from 42% last year to 43% in 2003. The improvement in gross profit is a result of increased pricing of certain products and cost reductions. Management expects sales for the remainder of 2003 will strengthen as weather improves and customer inventory levels are normalized. Increased sales volume will further improve gross profit for the remainder of the year.

Despite adverse sales conditions the company was able to improve margins and lower fixed costs to improve financial performance. Marketing costs declined by \$40,000 (6%) and general and administrative costs decreased by \$19,000 (5%). The company did purchase and install a used but modern "fill line" in the quarter for approximately \$32,000 or less than 25% of its replacement value. The line is expected to significantly lower our fill and labelling costs for high volume products. There are no other significant capital expenditures planned for this year. An emphasis on cost control without a negative impact on improving our distribution channels and sales will continue throughout the current year.

As a result of the above the operating loss in the first quarter has increased from \$213,000 for March 31, 2002 to \$326,000 for the current period and the net loss has increased from \$332,000 to \$378,000 (14% or \$46,000) The operating cash loss was \$309,000 for 2003, as compared to a cash operating loss of \$167,000 for the same period last year. The loss on foreign exchange of \$26,440 was a result of a strengthening Canadian dollar against US currency

The company's business has been historically seasonal, with the lowest volumes of business in the first and fourth quarters. Although plans are being developed to limit the impact of

seasonality on our business this trend is expected to continue this year. Management expects significant improvements in sales throughout the remainder of fiscal 2003. Our goal remains achievement of profitability in each of the last 3 quarters and at minimum cash flow positive for the year.

Liquidity and Capital Resources

As of March 31, 2003, the Company's working capital was approximately \$950,000 and a current ratio of 1.4:1. The Company has renegotiated the terms of its operating line with the bank of Nova Scotia and as a result the balance on the line of credit was converted to a term loan. In addition, to finance cash requirements and add liquidity in its working capital to meet immediate needs, the Company is using credit facilities made available which provide the Company a direct advance of funds on qualified export receivables.

Initiatives and Progress

In addition to improvements made on pricing and cost control which are reflected in the results of operations above, the Company reorganized its' marketing and sales organization to more clearly align objectives, responsibilities and accountabilities. To that end we established two divisions with specific responsibility to grow sales in both the "consumer" and "industrial" market sectors. In addition a new department was established to develop and manage new product and marketing initiatives and act as liaison to Research and Development. As a result of this change we are engaged in a number of new programs to improve and strengthen our distribution channels through establishment of new dealers, distributors and consignment inventories in key geographic locations in North America and internationally. Most recently we have negotiated a significant private label agreement with one of the biggest suppliers to the paint and coatings industry. This agreement gives Napier products access to a highly developed worldwide distribution network. To increase our product penetration in the aviation sector we have increased our professional sales staff and are currently in negotiations with the major world supplier of paint and coatings in this sector to market our products on an exclusive basis. Resources have also been directed to increase our presence in all architectural markets with additional focus on the need for product to safely remove lead paint, asbestos and difficult floor coatings.

Forward Looking Statements

This MD&A contains forward looking statements that are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in our forward looking statements. Factors that could cause actual results to differ materially include: rapid technological and/or market changes in the industry; the ability to maintain and grow successful third party and customer relationships, to improve current products and develop new products, to adequately protect the Company's proprietary rights and other factors described in the Company's regulatory filings. Although we believe the expectations reflected in our forward looking statements are reasonable, individual results may vary, and we cannot guarantee future results, levels of activity, performance or achievements.

ON BEHALF OF THE BOARD OF DIRECTORS

“Signed”

Frank Dixon
President and CEO

May 12, 2003

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED - Prepared by Management)

	March 31	December 31
	2003	2002
ASSETS		
Current		
Cash and cash equivalents	\$ 5,829	\$ 285,097
Accounts receivable	1,039,678	617,166
Inventory (Note 3)	1,883,798	1,574,303
Prepaid expenses	181,402	185,079
	3,110,707	2,661,645
Investment (Note 4)	134,585	161,585
Capital assets (Note 5)	745,266	754,517
	\$ 3,990,558	\$ 3,577,747
LIABILITIES		
Current		
Accounts payable	\$ 1,602,391	\$ 936,999
Bank indebtedness (Note 6)	497,773	353,000
Current portion of long term debt	76,563	80,033
	2,176,727	1,370,032
Long term debt (Note 7)	98,804	114,313
	2,275,531	1,484,345
SHAREHOLDERS' EQUITY		
Capital stock (Note 8)	23,335,041	23,335,041
Contributed surplus	39,890	39,890
Deficit	(21,659,904)	(21,281,529)
	1,715,027	2,093,402
	\$ 3,990,558	\$ 3,577,747

Approved by the Board of Directors

signed: "Frank Dixon"

signed: "Lionel G. Dodd"

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT (UNAUDITED - Prepared by Management)

	Three month period ended March 31	
	2003	2002
Sales	\$ 1,526,961	\$ 1,950,961
Cost of sales	863,839	1,122,897
Gross profit	663,122	828,064
Expenses		
Selling and marketing (Schedule)	579,052	618,973
General and administrative (Schedule)	358,247	376,801
Research and product development	51,497	44,921
	988,796	1,040,695
Operating loss	(325,674)	(212,631)
Other items		
Equity loss in investment	(27,000)	(123,411)
Foreign exchange loss	(26,440)	-
Interest and other income	689	4,437
Gain on disposal of assets	50	-
	(52,701)	(118,974)
Net loss for the period	(378,375)	(331,605)
Deficit at beginning of the period	(21,281,529)	(20,050,495)
Deficit at end of the period	\$ (21,659,904)	\$ (20,382,100)
Weighted average shares outstanding	47,628,042	47,248,042
Loss per share, basic and fully diluted	\$ (0.01)	\$ (0.01)

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED - Prepared by Management)**

	Three month period ended March 31	
	2003	2002
Operating activities		
Net loss for the period	\$ (378,375)	\$ (331,605)
Items not involving cash		
Amortization	42,044	41,220
Gain on disposal of assets	(50)	-
Equity loss in investment	27,000	123,411
	(309,381)	(166,974)
Change in non-cash operating working capital		
Accounts receivable	(422,512)	(560,278)
Inventory	(309,495)	(128,340)
Prepaid expenses	3,677	(9,186)
Accounts payable	665,392	199,177
	(62,938)	(498,627)
	(372,319)	(665,601)
Financing activities		
Bank indebtedness	144,773	270,000
Shares issued for cash	-	17,000
Repayment of long-term debt	(18,979)	(18,579)
	125,794	268,421
Investing activities		
Purchase of capital assets	(32,793)	(4,015)
Proceeds of disposal of capital assets	50	2,800
	(32,743)	(1,215)
Change in cash during the period	(279,268)	(398,395)
Cash and cash equivalents at beginning of the period	285,097	981,798
Cash and cash equivalents at end of the period	\$ 5,829	\$ 583,403
Supplemental information		
Interest paid	\$ 16,113	\$ 14,725

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2003
(UNAUDITED – Prepared by Management)

1. CONTINUING OPERATIONS

The company is incorporated under the Company Act of British Columbia and is primarily involved in the manufacture and distribution of a wide range of products created through environmentally advanced technology. The product lines include coating removal and wood restoration products.

The company has incurred significant losses over the past fiscal periods and has been reliant on sources of cash from other than operations. Such sources have included bank financing and issuances of equity. The ability of the company to continue as a going concern is dependent upon either achieving cash flow from operations or obtaining an injection of capital.

These interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the company will continue to operate in the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. If the going concern assumption was not appropriate, then certain adjustments would be necessary to the carrying values of assets and liabilities, the reported costs and expenses and balance sheet classifications used.

Management believes that the actions already taken or planned will mitigate the conditions and events that raise doubts about the validity of the going concern assumption used in preparing these financial statements.

2. BASIS OF PRESENTATION

These interim consolidated financial statements should be read in conjunction with the financial statements for the company's most recently completed fiscal year ended December 31, 2002. They do not include all disclosures required in annual financial statements but rather are prepared in accordance with recommendations for interim financial statements in conformity with Canadian generally accepted accounting principles. They have been prepared using the same accounting policies and methods as those used in the December 31, 2002 annual accounts. Certain of the comparative figures have been reclassified to conform to the current period's presentation.

The preparation of interim financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reporting period. Actual results could differ from those estimates.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.
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2. BASIS OF PRESENTATION (continued)

The company's business has historically been seasonal, with the lowest volumes of business experienced in the first and fourth quarters and the highest volumes in the second and third quarters. There is no reason to expect a change in this pattern during the current year.

3. INVENTORY

	March 31	December 31
	2003	2002
Raw materials	\$ 1,097,364	\$ 786,639
Finished goods	786,434	787,664
	\$ 1,883,798	\$ 1,574,303

4. INVESTMENT

	March 31	December 31
	2003	2002
Investment in Ecoprogress, beginning of period	\$ 111,585	\$ 225,545
Equity share of losses	(27,000)	(150,110)
Gain on dilution of equity interest	-	36,150
Investment in Ecoprogress, end of period	84,585	111,585
Investment in Radical Elastomers Inc., at written down cost	50,000	50,000
Total investments at end of the period	\$ 134,585	\$ 161,585

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5. CAPITAL ASSETS

	March 31		December 31	
	2003		2002	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Machinery and equipment	\$ 921,372	\$ 539,610	\$ 381,762	\$ 378,365
Furniture and fixtures	210,512	62,025	148,487	153,496
Leasehold improvements	277,544	62,527	215,017	222,656
	\$ 1,409,428	\$ 664,162	\$ 745,266	\$ 754,517

6. BANK INDEBTEDNESS

Bank indebtedness consists of a demand loan bearing interest at prime plus 1%, secured by a general security agreement over the assets of the company and is to be repaid by June 15, 2003 from the collection of receivables. The company has an arrangement with Scotia Open Accounts Receivable Service (SOARS) for the sale of insured foreign accounts receivable to a limit of US\$750,000.

7. LONG TERM DEBT

	March 31	December 31
	2003	2002
Capital lease obligations repayable in aggregate monthly instalments of \$9,187 including interest averaging 11.19% per annum due until January, 2005.	\$ 175,367	\$ 194,346
Less current portion	76,563	80,033
	\$ 98,804	\$ 114,313

Principal repayments required are as follows: 2003 - \$60,000; 2004 - \$70,000; 2005 - \$45,367.

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8. CAPITAL STOCK

a) Authorized and issued

The company's authorized capital consists of 145,635,962 common shares, of which 47,628,062 have been issued.

b) Stock options and warrants

	Stock options		Warrants
	Number	Weighted average price	
Outstanding at December 31, 2002	3,639,000	0.90	2,917,120
Cancelled/expired	(20,000)	0.75	-
End of the period	3,619,000	0.90	2,917,120
Exercisable, end of the period	3,394,000	0.94	

At March 31, 2003, 2,597,120 warrants are exercisable at \$0.41 per share and 320,000 warrants are exercisable at \$2.40 per share and expire September 11, 2003.

9. SEGMENTED INFORMATION

The company operates in one industry segment, which is the manufacture and distribution of coatings removal products and wood restoration products in Canada and internationally. Within this general industry segment the company distributes to both retail and industrial sectors. Sales of the company's Biowash products are distributed through retail outlets and the company's SARA/RemovAll products are predominantly distributed via industrial/commercial relationships. All of the company's capital assets are located in Canada.

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9. SEGMENTED INFORMATION (continued)

	March 31	March 31
	2003	2002
	3 months	3 months
Sales by region		
Canadian	\$ 596,292	\$ 628,949
International	930,669	1,322,012
Total sales	<u>\$ 1,526,961</u>	<u>\$ 1,950,961</u>
 Sales by product line		
Biowash products	\$ 885,264	\$ 876,165
Sara/RemovAll products	641,697	1,074,796
	<u>\$ 1,526,961</u>	<u>\$ 1,950,961</u>

10. COMMITMENTS

The company leases its premises and certain office equipment under operating leases. The aggregate minimum rental payments under these leases over the next five years are approximately 2003 - \$260,000; 2004 - \$314,000; 2005 - \$340,000; 2006 - \$342,000, 2007- \$204,000.

NAPIER ENVIRONMENTAL TECHNOLOGIES INC.

INTERIM CONSOLIDATED SCHEDULES (UNAUDITED - Prepared by Management)

SELLING AND MARKETING EXPENSES

	Three month period ended March 31	
	2003	2002
Advertising	\$ 39,323	\$ 34,496
Commissions	59,155	70,216
Consulting and other	44,327	3,103
Retail service fees	15,926	-
Promotional materials	39,698	69,105
Salaries and wages	262,095	304,483
Telecommunications	12,922	13,268
Travel, training and tradeshow	105,606	124,302
	\$ 579,052	\$ 618,973

GENERAL AND ADMINISTRATIVE EXPENSES

	Three month period ended March 31	
	2003	2002
Amortization	\$ 26,777	\$ 26,303
Consulting	1,877	1,945
Insurance	45,856	37,935
Interest on long term debt	7,940	9,786
Occupancy	31,045	23,142
Other	34,832	26,853
Professional fees	18,526	58,719
Regulatory and filing fees	5,470	2,838
Salaries and wages	173,046	174,756
Telecommunications	6,882	6,564
Travel and corporate relations	5,996	7,960
	\$ 358,247	\$ 376,801